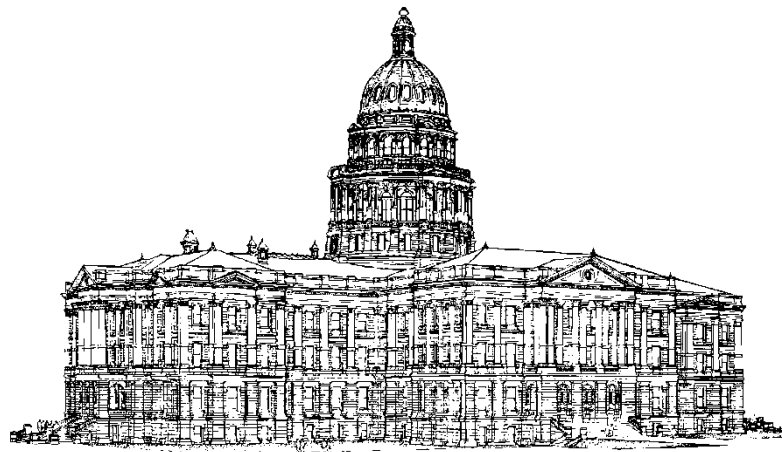


“Gallagher” History

Target Percentage and Residential Assessment Rate



*Presentation to Alternatives to Gallagher
Interim Committee, July 13, 2018*



COLORADO
Department of Local Affairs
Division of Property Taxation

Property Taxes in Colorado

Actual Values



×

Assessment Rate

7.2% Residential *
29% Nonresidential
87.5% Oil and Gas

=

Assessed Values



Assessed Values



×

Local
Mill Levy

=

Taxes
Owed

*7.2% is the 2017-2018 assessment cycle residential assessment rate

Constitutional Amendment 1 (1982)

Referendum Passed **65.5%** to **34.5%**

- Referendum (HCR 82-1005) made several changes to the property tax laws of Colorado
 - **Exempted Certain Personal Property:**
 - Household furnishings; personal effects; inventories held for business consumption or sale; livestock; agricultural and livestock products...
 - **Established the annual assessment audit**
 - **Reconstituted the State Board of Equalization**
 - Governor, President of Senate, Speaker of House (or designees) and 2 members appointed by Governor approved by Senate
 - **Took the Property Tax Administrator out of personnel system and appointed by SBOE**
 - **AND...**

Constitutional Amendment 1 (1982)

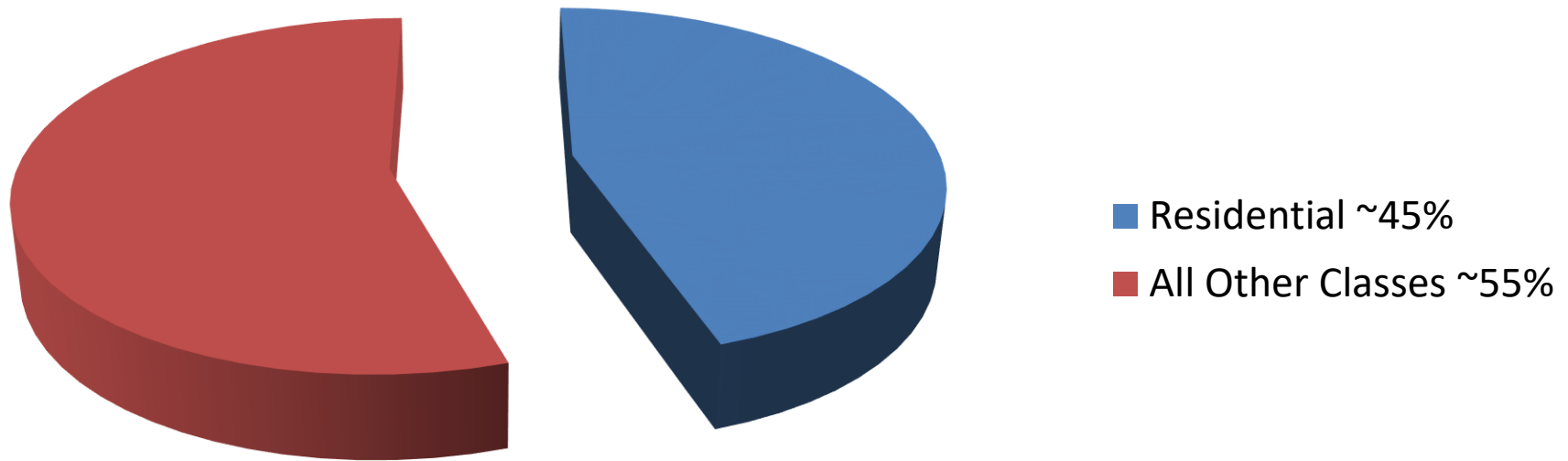
Continued

GALLAGHER AMENDMENT

- Created a floating residential assessment rate (RAR) to maintain a (somewhat) fixed relationship between the tax base of residential property and all other classes
- Referred to as the “45/55 split”



Balance of Property Tax Base Burden



In late 1969, market values of properties began rising at a rate of 1% per month, and this trend continued through much of the 1970s and beyond.

In 1982, Gallagher was supposed to stabilize residential contribution to property tax values. Changing the RAR keeps the assessed values relatively balanced in this relationship. The relationship can change based on new construction and increased mineral and oil and gas production.

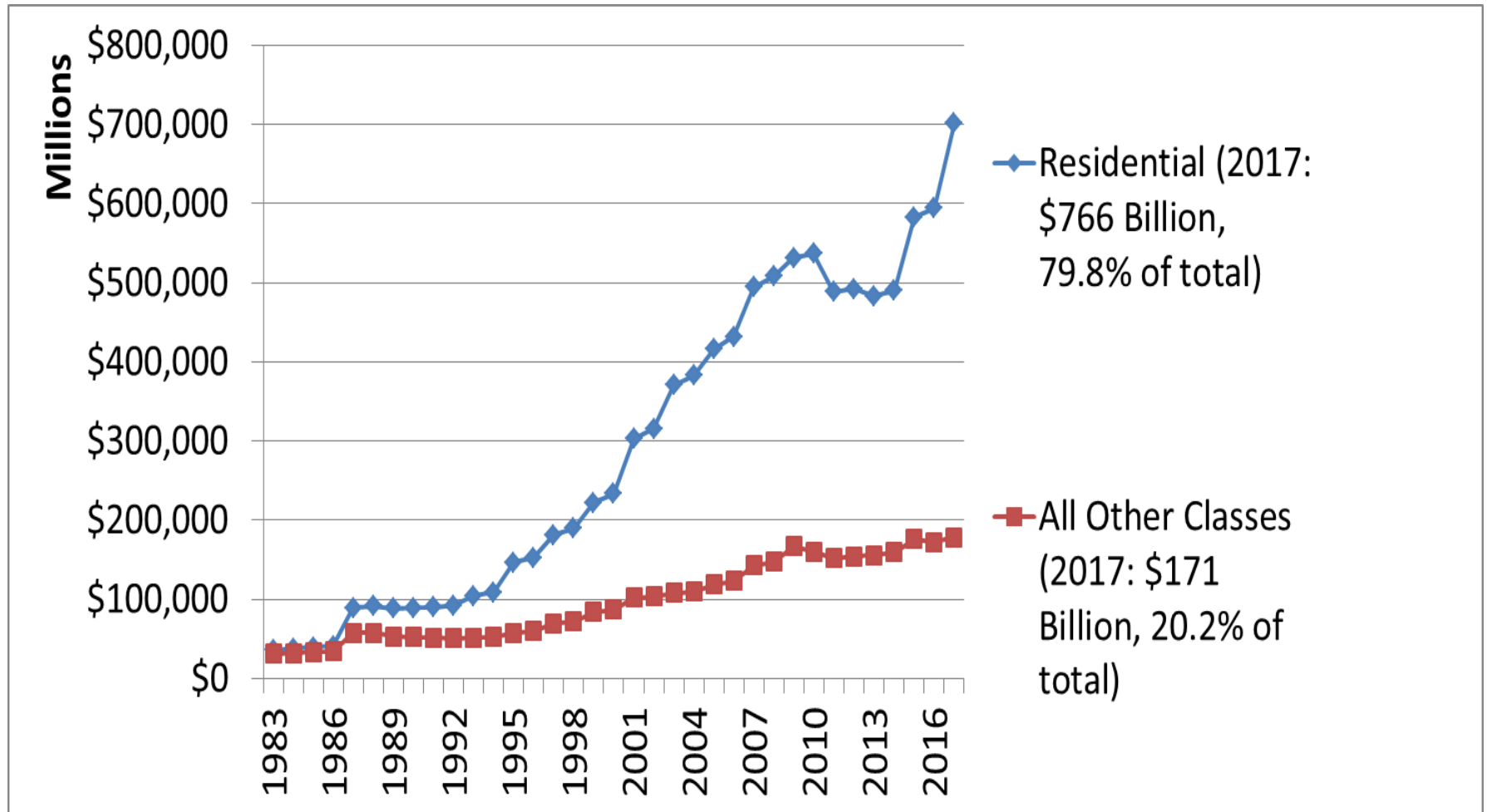
CO Const. Art. X, Section 3(b)

... the general assembly shall determine the percentage of the aggregate statewide valuation for assessment which is attributable to residential real property. For each subsequent year, the general assembly shall again determine the percentage of the aggregate statewide valuation for assessment which is attributable to each class of taxable property, after adding in the increased valuation for assessment attributable to new construction and to increased volume of mineral and oil and gas production.

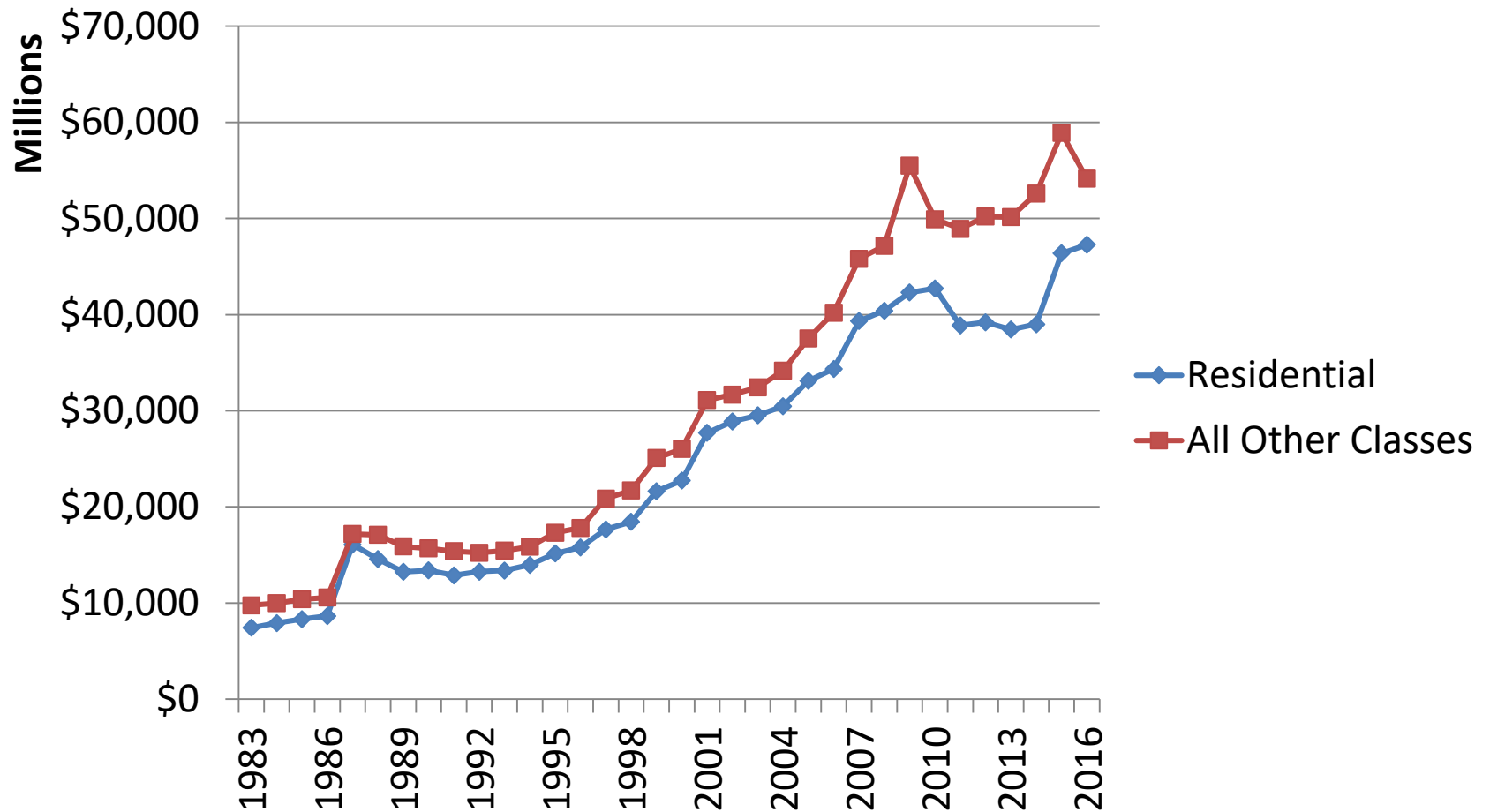
CO Const. Art. X, Section 3(b) Cont.

For each year in which there is a change in the level of value used in determining actual value, the general assembly shall adjust the ratio of valuation for assessment for residential real property which is set forth in this paragraph (b) as is necessary to insure that the percentage of the aggregate statewide valuation for assessment which is attributable to residential real property shall remain the same as it was in the year immediately preceding the year in which such change occurs. Such adjusted ratio shall be the ratio of valuation for assessment for residential real property for those years for which such new level of value is used.

Colorado Actual Values Trend



Colorado Assessed Values Trend:



How do we do it?

2 Separate Steps to Calculate RAR

1. Calculate the **residential Target Percentage** for the reassessment cycle with information from counties' Abstracts of Assessment from previous assessment cycle (**AKA the PIE!**)
1. Calculate the **Residential Assessment Rate** based on **estimated property value increases/decreases** from assessors' offices and other sources

STEP ONE – Target Percentage

- To establish Target Percentage – take percentage of aggregate statewide valuation for assessment which is attributable to residential real property in the year immediately preceding the year in which a change in the level of value occurs.
- Calculate what actual assessed value would have exactly achieved the Target Percentage, **then adjust** for new construction (NC) and mineral and oil and gas production.

STEP ONE cont.

Adjustments to Target Percentage New Construction



- **First** – determine if there has been **INCREASED VALUATION FOR ASSESSMENT ATTRIBUTABLE TO*** new construction. If so,
- **Then** – Residential New Construction added to valuation for assessment attributable to residential real property for current assessment cycle.
- **Repeat analysis for** All Other New Construction added to the “Other Assessed” side.

STEP ONE concluded.

Volume of Mineral and Oil and Gas Production



- Added to the “Other Assessed” side of equation
- **First** – determine if there has been **INCREASED VALUATION FOR ASSESSMENT ATTRIBUTABLE TO*** increased volume. If so,
- **Then-** Calculate a value to add to the equation by looking at the difference in volume from previous assessment cycle to capture the change since the last reassessment cycle

Step Two - Estimated Values

- Counties give DPT their estimated values for each class of property

$$\frac{\text{Residential Assessed Target Value \$}}{\text{Estimated Residential Actual Value \$}} = \text{RAR}$$

- Once the Target Percentage is calculated, the residential assessment rate essentially forces the estimated values from the county to fit the balance given the 29% assessment rate for most other classes of property.

Who Does Study? What Study Is Used?

§ 39-1-104.2(4)(a) and (5)(b) and (c), C.R.S. :

- 4(a)..the administrator shall determine the target percentage...
- 5(b) The residential rate shall be based on a **documented estimate** of the total valuation for assessment of all taxable property in the state arrived at by projecting the percentage of change in the level of value for each class of taxable property to all taxable property in such class in the state.
- 5(c) **The administrator shall be responsible for ensuring that a documented estimate study is completed by the division of property taxation.**

Legislative Council Estimates on RAR

- Due to impacts to state contribution to Schools, Legislative Council Staff have been including an estimate of the upcoming RAR
 - December 2016
 - 6.87% (initial DPT estimate, 6.56%, ultimately 7.20%)
 - **December 2017**
 - **6.11% (NO DPT estimate until January, 2019)**
 - **December 2018**

Legislative Council uses future predictive modeling to make their determination/different methodology from DPT but no less valid.

Gallagher with TABOR



Constitutional Amendment 1 (1992)

Initiative Passed 53.68% to 46.32%

Taxpayer Bill of Rights was meant to restrain most growth of government and limits were only to be weakened by voter approval.

Actual TABOR Language

- (4) Required Elections.
 - (a) ... any new tax, tax rate increase, mill levy above that for the prior year,
valuation for assessment ratio increase for a property class,
or extension of an expiring tax, or a tax policy change directly causing a net tax revenue gain to any district.

Res Rate Enacted Vs. Recommendation

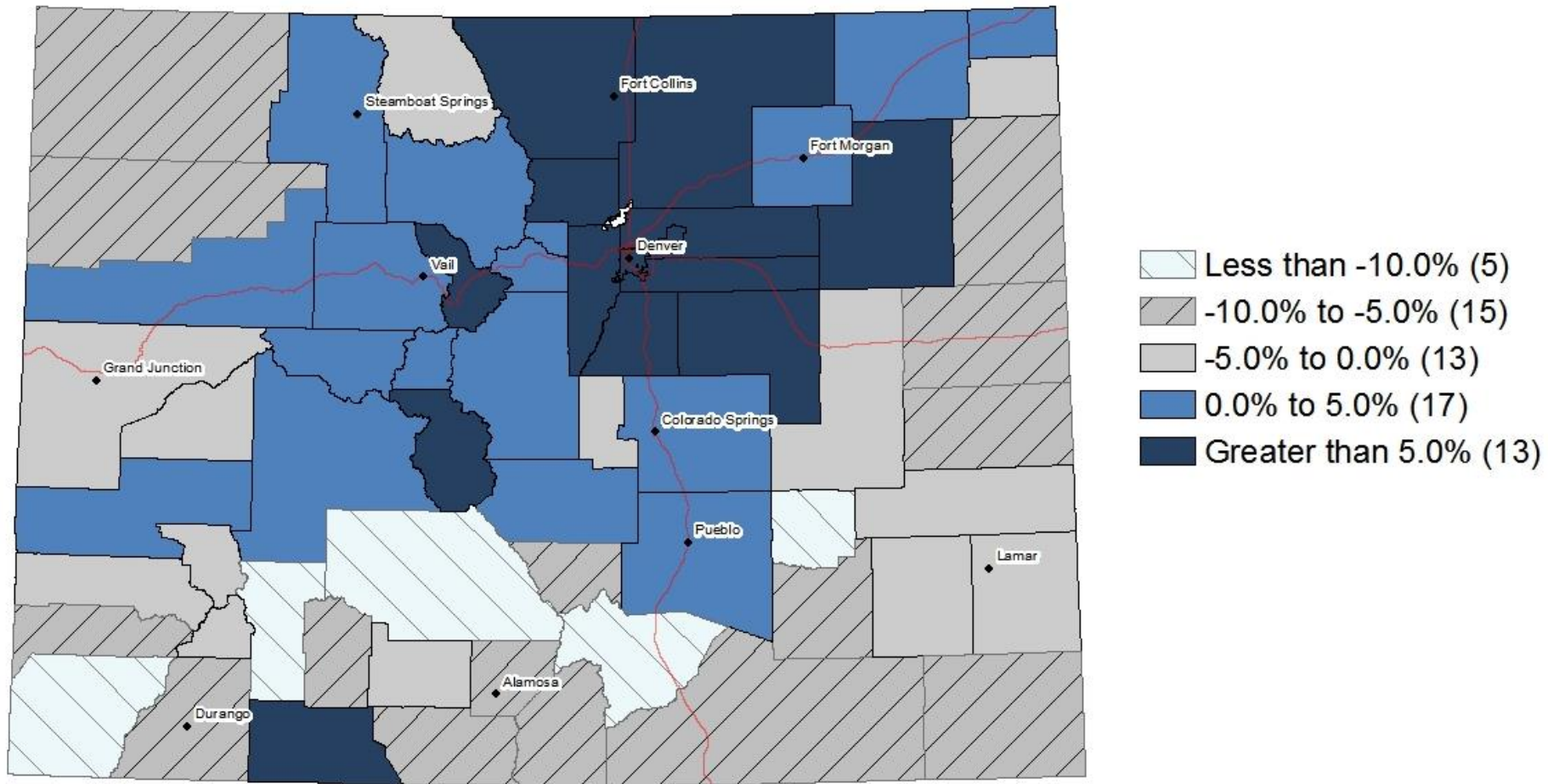
<u>Years</u>	<u>Rate enacted into law</u>	<u>Rate calculated by Preliminary RAR Study</u>	<u>Rate calculated by Final RAR Study</u>
1983-86	21.00%		
1987	18.00%	16.74%	
1988	16.00%	15.62%	
1989-90	15.00%	15.04%	
1991-92	14.34%	14.34%	
1993-94	12.86%	12.86%	12.16%
1995-96	10.36%	10.50%	10.02%
1997-98	9.74%	9.71%	10.08%
1999-2000	9.74%	9.81%	9.83%

Rate Enacted Vs. Recommended Cont.

<u>Years</u>	<u>Rate enacted into law</u>	<u>Rate calculated by Preliminary RAR Study</u>	<u>Rate calculated by Final RAR Study</u>
2001-02	9.15%	9.35%	9.15%
2003-04	7.96%	8.18%	8.04% (rev. 4/23/2003 to 7.96%)
2005-06	7.96%	8.15%	8.17%
2007-08	7.96%	8.00%	8.19%
2009-10	7.96%	8.91%	8.85%
2011-12	7.96%	8.59%	8.77%
2013-14	7.96%	9.09%	9.13%
2015-16	7.96%	8.30%	8.24%
2017-18	7.20%	6.56%	7.20%

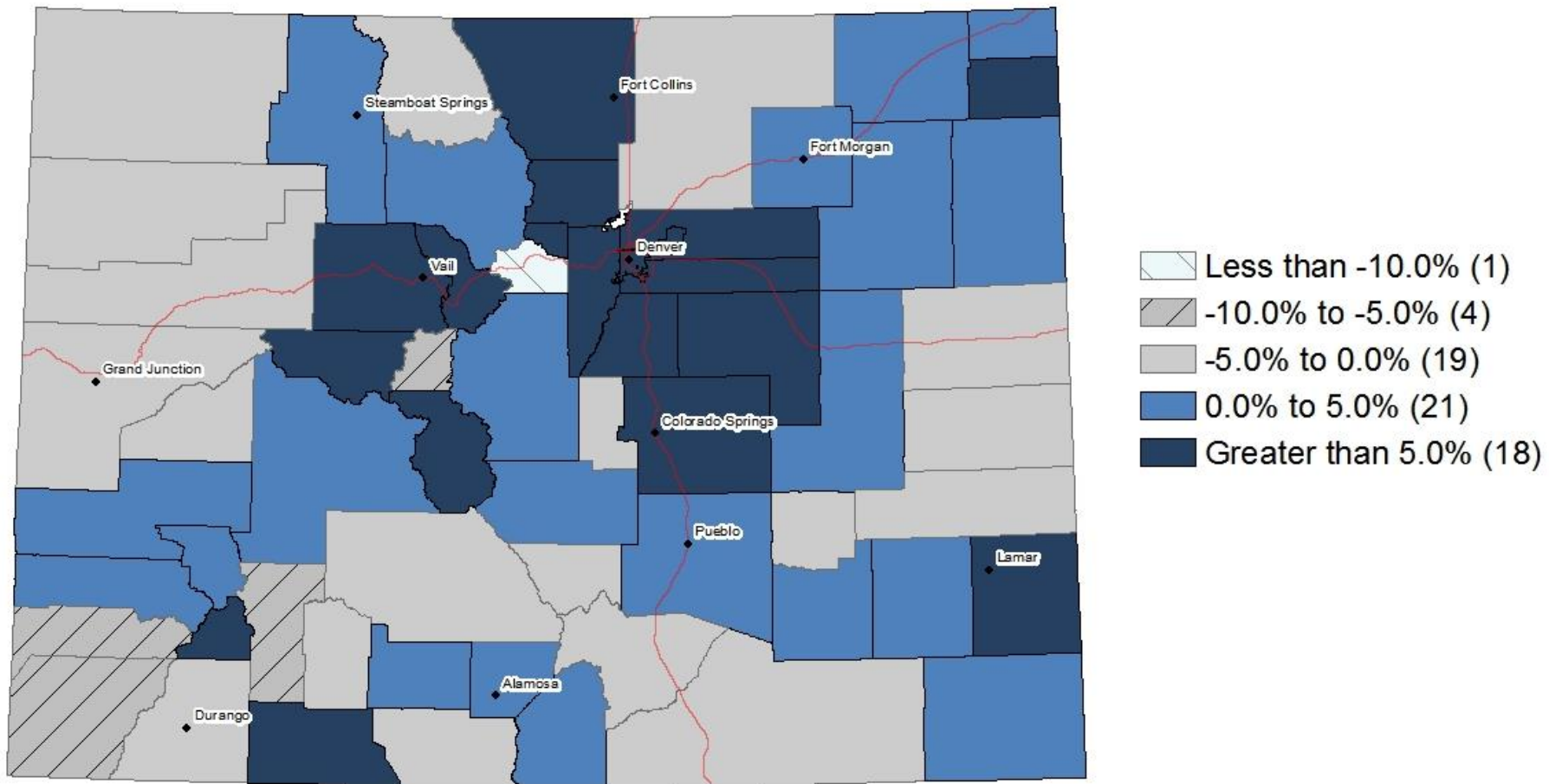
Change in Residential Assessed Values by County

2016 to 2017



Change in Total Assessed Values by County

2016 to 2017



Alternatives to the Gallagher Amendment Interim Study Committee

COMMITTEE MEMBERS



Representative [Daneya Esgar](#)
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Additional useful (?) information

HUBER v. COLORADO MINING ASS'N (Colo. 2011)

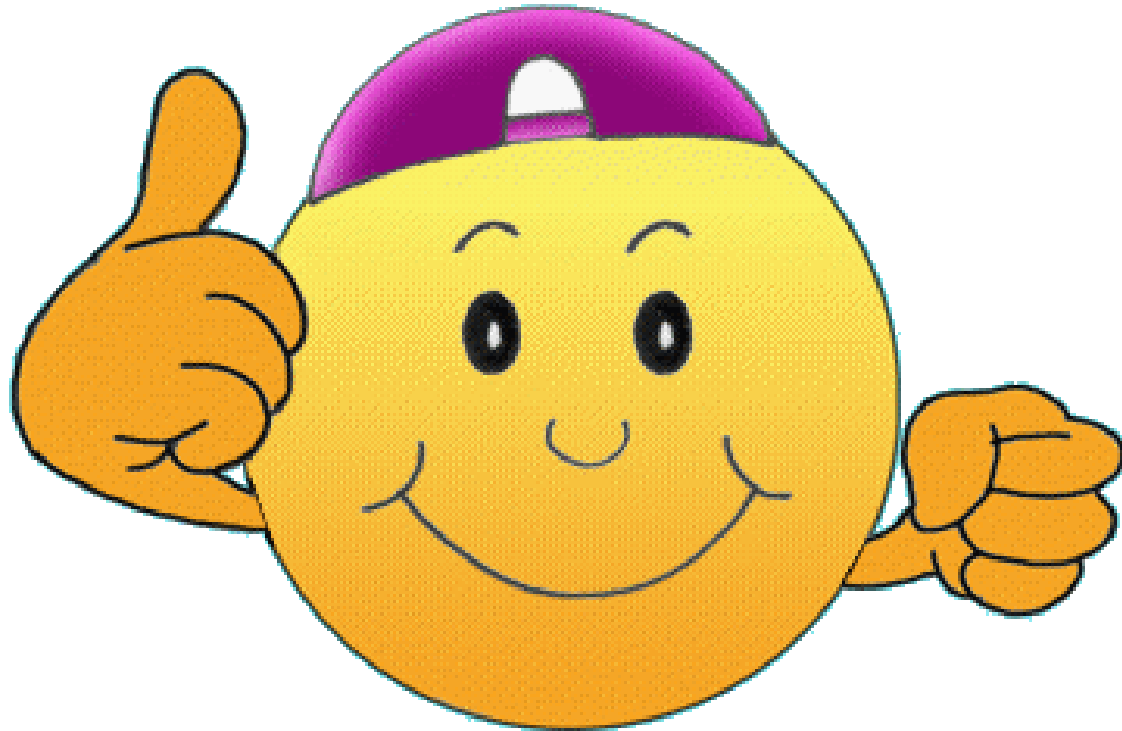
- Colorado Supreme court held that section 39–29–106(1) and (5) establishes a tax rate that contains two components: a base rate **plus the non-discretionary adjustment factor that is “based upon changes to the index of producers' prices.”** The Department's implementation is not a “tax rate increase,” but a **non-discretionary duty required by a pre-Amendment 1 taxing statute which does not require voter approval.**
 - Stumbling Block for Gallagher implementation – **Specific Language of TABOR**

Additional useful (?) information cont.

- Definition of what is residential is statutory:
 - Constitution: *Residential real property, which shall included all residential dwelling units and the land, **as defined by law**, in which such units are located...but shall not include hotels and motels...*
- *Re-assessment “cycle” is statutory*
 - *Constitution requires a new target percentage each cycle but does not define the time frame of the cycle*

Great minds...

GO FOR IT !



GOOD LUCK !